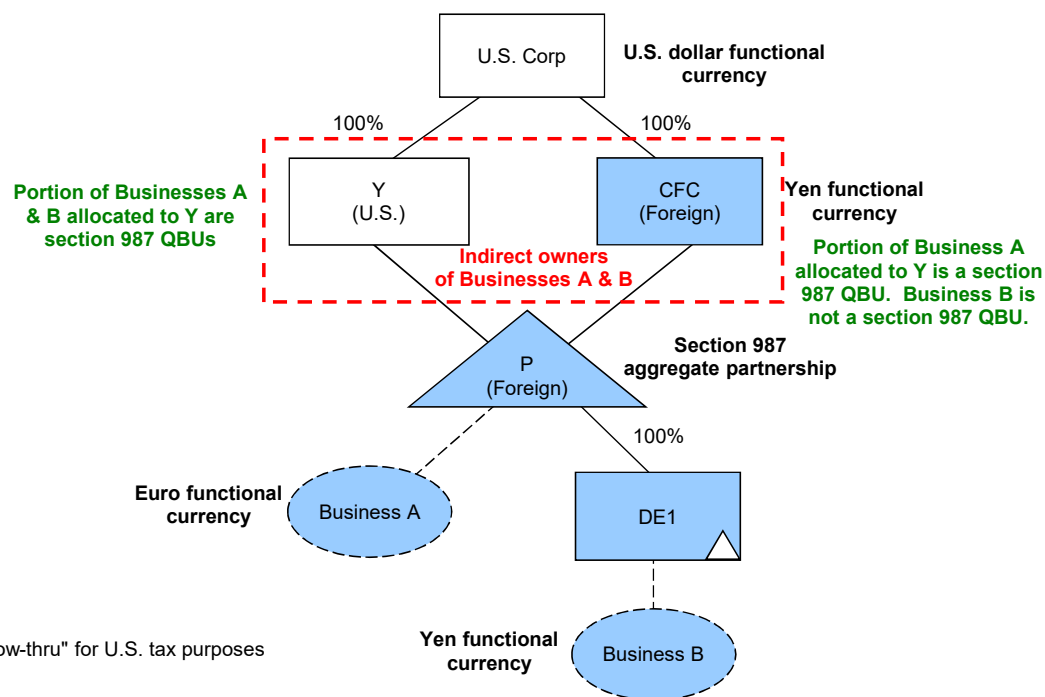


Section 987 QBU: Aggregate Partnerships



U.S. Corp is a domestic corporation, has the U.S. dollar as its functional currency, and uses the calendar year as its taxable year. Business A and Business B are eligible QBUs and have the euro and the Japanese yen, respectively, as their functional currencies.

U.S. Corp owns all the stock of Y, a U.S. corporation that is a member of U.S. Corp's consolidated group. U.S. Corp also owns all the stock of CFC, a controlled foreign corporation (as defined in section 957(a)) of U.S. Corp with the Japanese yen as its functional currency. Y and CFC are the only partners in P, a foreign partnership. P owns DE1 and Business A. DE1 owns Business B.

Under Treas. Reg. §1.987-1(b)(5)(i), P is a section 987 aggregate partnership because Y and CFC own all the interests in partnership capital and profits, Y and CFC are related within the meaning of section 267(b), and the requirements of Treas. Reg. §1.987-1(b)(5)(i)(B) are satisfied. Pursuant to Treas. Reg. §1.987-1(b)(3)(ii), P and DE1 are not eligible QBUs. Moreover, pursuant to Treas. Reg. §1.987-1(b)(4), for purposes of section 987, neither P nor DE1 is the owner of the Business B eligible QBU, and P is not the owner of the Business A eligible QBU. Instead, pursuant to Treas. Reg. §1.987-1(b)(4)(ii), Y and CFC are indirect owners of the Business A eligible QBU and the Business B eligible QBU to the extent they are allocated the assets and liabilities of such businesses under Treas. Reg. §1.987-7.

Because Business A and Business B are eligible QBUs with different functional currencies than Y, the portions of Business A and Business B allocated to Y under Treas. Reg. §1.987-7 are section 987 QBUs of Y.

Because the Business A eligible QBU has a different functional currency than CFC, the portion of Business A that is allocated to CFC under Treas. Reg. §1.987-7 is a section 987 QBU, and CFC and its section 987 QBU are subject to section 987. Because the Business B eligible QBU has the same functional currency as CFC, the portion of Business B that is allocated to CFC under Treas. Reg. §1.987-7 is not a section 987 QBU of CFC.